

MEMO

DATE: October 10, 2005

TO: Transportation and Communications Committee
Regional Council

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SUBJECT: Port & Modal Elasticity Study

SUMMARY:

This report was prepared for SCAG under contract with Prof. Robert Leachman of UC Berkeley. It analyzed the “elasticity” of demand for the use of the Ports of Los Angeles and Long Beach in response to possible container fees to help fund needed goods movement infrastructure in the SCAG region. The report’s key findings are that:

- Shippers are more sensitive to landside congestion that slows freight movement than to the imposition of fees.
- Quoting from the study, “A fee of about \$190 per FEU [forty-foot equivalent container unit] that retires the bonds on a wise and ambitious program of congestion relief seems a safe and effective investment.”
- The imposition of a container fee, up to a certain point, could actually help boost trade volume through Southern California if it is invested in congestion relief.
- Wisely invested fees could have the effect of attracting high-value freight to the region, while reducing lower-value freight. Higher-value freight is the type that creates employment for blue-collar workers, a need highlighted by economist John Husing in his 2004 report on logistics and upward social mobility. Lower-value freight is the type that simply passes through the region, imposing burdens and costs without creating economic benefits.

The study forms the basis for developing a business case for private sector investment in goods movement infrastructure. The goal is to arrive at a negotiated fee that will have value for shippers and carriers, rather than an imposed fee which will almost certainly be opposed.

BACKGROUND:

As federal and state funds for transportation infrastructure grow more scarce, SCAG planners have increasingly focused on private investment as a source of funding. The 1998, 2001, and 2004 Regional Transportation Plans all rely in part on this approach. The elasticity study was commissioned to examine how such solutions might be implemented in the goods movement arena – in particular, whether pursuing private financing through user fees would be harmful to the region in terms of loss of trade.

Prof. Leachman and his team built an “elasticity model” using actual data provided by shippers and carriers. It is an economic model of shipper decision-making that takes into account all port options in North America, not just those on the West Coast. As summarized above, the model shows that in fact, the worst-case scenario is one in which we do nothing: we retain the congestion and associated air quality problems while doing nothing to create jobs, and in fact putting our current trade volumes at risk because of the growing landside delays.

MEMO

The study concludes that up to about \$190-200 per forty-foot equivalent container unit, the region's trade will not be put at risk and in fact, cargo that is valuable to the region could increase as long as the fees are dedicated to congestion relief.

It is important to note that the shippers who contributed data for this study did not know in advance what the outcome would be, and have not endorsed the study findings. Staff is now conducting outreach to shippers, carriers, and other private sector stakeholders to share the findings and seek feedback. Additional staff analysis (not included in the study) has indicated the following:

- If user fees in the form of tolls were levied to help repay the cost of dedicated truck lanes, the return on a dollar paid in tolls might be as much as \$5, \$10, or even \$11 for carriers. This analysis begins to build a case that these fees would have value for the private sector: a positive return on investment.
- Combining public and private financing mechanisms, it would be possible to finance the projected total of \$26 billion in regional goods movement infrastructure needs (described in the consensus Regional Strategy for Goods Movement: A Plan for Action, written for Business, Transportation & Housing Sec. Sunne McPeak earlier this year). In fact, within the \$190 to \$200 limit established by the elasticity study, it would be possible to finance an additional \$10 billion to address reduction of public health impacts associated with diesel fuel usage for freight movement.

Staff is now working to disseminate the results of the study; obtain feedback on the study and related staff analysis; and further develop the business case for private sector investment that yields a positive return and creates regional transportation, environmental and economic benefits.

The full text of the elasticity study is attached.

#114133 v1 - TCC/RC Report Elasticity Study Oct 05